REPORT OF EXAMINATION
OF THE

CALIFORNIA CASUALTY COMPENSATION
INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Filed June 13, 2008

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San Francisco, California
April 25, 2008

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1900 Alameda de las Pulgas, San Mateo, California 94403.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination was conducted concurrently with the Company's parent, California Casualty Indemnity Exchange, the Company's affiliate, California Casualty Insurance Company and its two subsidiaries, California Casualty & Fire Insurance Company, and California Casualty General Insurance Company of Oregon. These insurers are collectively referred to as the California Casualty Group (Group) hereinafter.

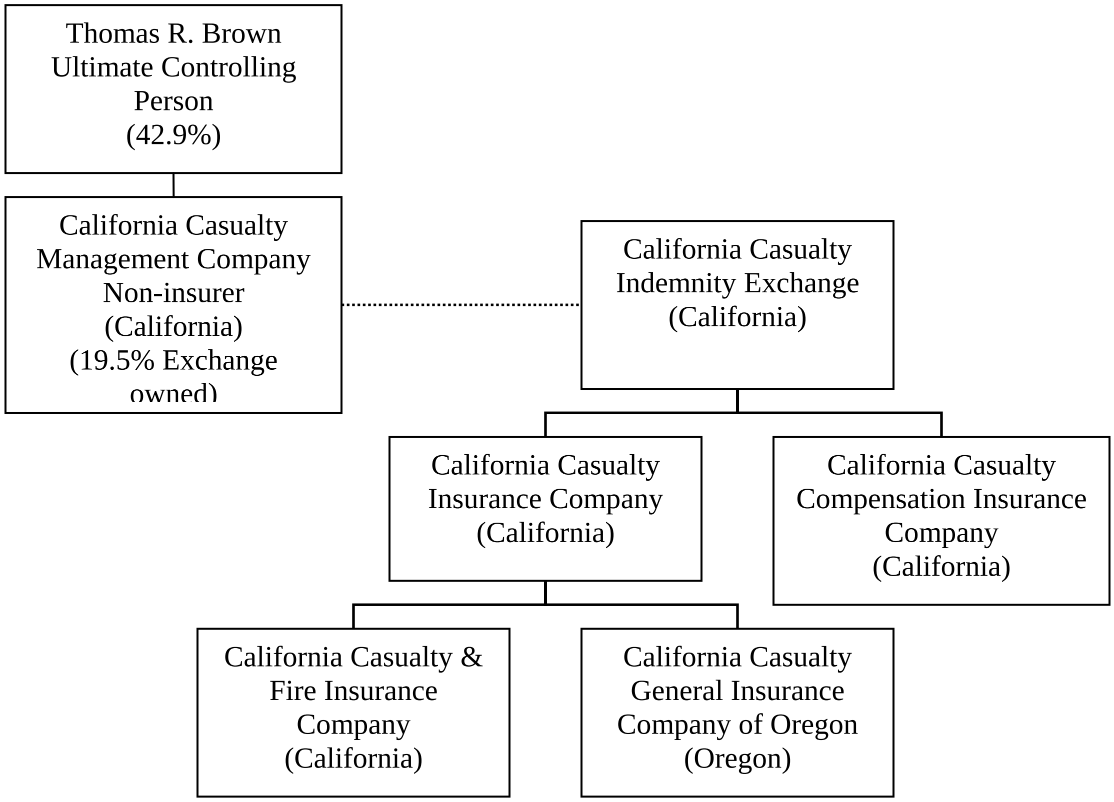
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; loss experience; and sales and advertising.

COMPANY HISTORY

During 2005, the Company paid a $6 million ordinary dividend to its sole shareholder, California Casualty Indemnity Exchange.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is controlled by the California Casualty Management Company (CCMC), as the attorney-in-fact for the California Casualty Indemnity Exchange (Exchange). As of December 31, 2006, Thomas Runnels Brown owned or controlled 42.9% of the Class A voting common stock of CCMC. The following is an abridged organizational chart showing the relationship of the Company in the holding company system:



(*) all ownership is 100% unless otherwise noted.

As of December 31, 2006, CCMC held a 49% ownership interest in Pillar Point Equity Management, LLP (PPEM). PPEM provides investment management services to CCMC and the Group as described below under the section "Intercompany Agreements." On September 26, 2007, PPEM purchased CCMC's ownership interest in PPEM and ceased being a member of the California Casualty holding company group. This transaction resulted in no change to the investment management agreement.

The Board of Directors manages the business and affairs of the Company. Following are members of the Board of Directors and the principal officers of the Company serving as of December 31, 2006:

Members of the Board of Directors

Name and Residence	Principal Business Affiliation
David Allen Aaker Orinda, California	Retired University of California, Berkeley
James David Altman Menlo Park, California	Retired Johnson & Higgins of California
Jonathan Archer Brown Fair Oaks, California	President Association of Independent Colleges and Universities
John Edward Cahill, Jr. Kentfield, California	Chairman and Chief Executive Officer Chahill Contractors, Inc.
William Rynol Dahlman North Hollywood, California	President and Chief Executive Officer Employers Group
Wayne Shawn Diviney Norfolk, Virginia	Retired National Education Association
Carolyn Ellen Doggett Belmont, California	Executive Director California Teachers Association
Jon Howell Hamm El Dorado Hills, California	Executive Manager California Association of Highway Patrolmen
Richard Wayne Johnson Santa Barbara, California	Retired California Teachers Association
R. Kirk Lindsey Modesto, California	President Brite Transport System, Inc.
George Goodrich Coale Parker Portola Valley, California	Professor of Finance Stanford University Graduate School of Business
Edward Garland Phoebus III Silver Spring, Maryland	Vice President National Education Association Member Benefits
Lynne Francine Siegel Portland, Oregon	Retired Oregon Education Association

Members of the Board of Directors (continued)

Name and Residence	Principal Business Affiliation
Ralph Matthew Tornatore, Jr. Cool, California	Retired California Association of Highway Patrolmen
Suzanne Marie Zimmer Golden, Colorado	Assistant Executive Director Colorado Education Association

Principal Officers

Name	Title
Kai Grant Edwin Anderson**	President and Chief Executive Officer
Michael Allen Ray	Chief Financial Officer and Treasurer
James Michael Sevey	Secretary

***Kai Grant Edwin Anderson retired on February 28, 2007 and was replaced by Carl Beaumont Brown.*

Intercompany Agreements

The Company is managed by California Casualty Management Company (CCMC) under a management agreement effective January 1, 1994. Under this agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the Group's calendar year pre-tax income. During 2006, the Company paid CCMC $610,000 for the services provided under this agreement. Pursuant to California Insurance Code (CIC) Section 1215.5, this agreement was submitted to the California Department of Insurance (CDI) and approved on November 12, 1993.

Effective January 1, 1999, the Exchange entered into an amended tax allocation agreement with the other insurers in the California Casualty Group. Under this agreement, the consolidated federal income tax liability of the Group is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. The Exchange is responsible for filing and making all tax payments on behalf of the Group. The tax allocation agreement was submitted to the CDI pursuant to CIC Section 1215.5(b) (4) on March 26, 2008 and is currently under review.

Effective October 1, 2004, CCMC, as attorney-in-fact for the Exchange, entered into an Investment Management Agreement with Pillar Point Equity Management, LLC (PPEM). Under this agreement, PPEM manages CCMC's and the Group's investments in accordance with the California Casualty Group Investment Policy Statement. PPEM is paid an annual fee equal to 0.5% of the market value of the securities under management, billed monthly in arrears. During 2006, no services were provided to and no fees were incurred by the Company under this agreement. Pursuant to CIC Section 1215.5(b) (4), the Investment Management Agreement was submitted to the CDI and approved on October 25, 2004.

CORPORATE RECORDS

The Company's directors are all members of the California Casualty Indemnity Exchange's (Exchange) Advisory Board and meet concurrently with the Exchange's Advisory Board. Pursuant to California Insurance Code (CIC) Section 735, the directors were informed of the receipt of each company's previous examination reports and an entry was made in the Exchange's Advisory Board meeting minutes. However, no entry was made in the Company's Board of Director's meeting minutes of this action. The Company stated that it will comply with CIC Section 735 in the future.

The Investment Policy Review Committee (IPRC) of the Exchange's Advisory Board also functions as the IPRC for the Company. Pursuant to CIC Section 1200 and 1201, investments were reviewed and approved by the IPRC and entries were made in the Exchange's Advisory Board meeting minutes to reflect such actions. However, no entry was made in the Company's Board of Directors meeting minutes of such actions. The Company began complying with CIC Sections 1200 and 1201 starting with the March 5, 2008 Board of Directors meeting.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance only in the State of California. The Company did not write any direct business during the exam period.

All of the workers' compensation and miscellaneous commercial business, which in has been in run-off since October of 1997, is retroceded to the Company (See "REINSURANCE").

The manager of the insurance operations of the Company, California Casualty Management Company (CCMC), conducts the Company's run-off business from its home office in San Mateo, California, except for claims handling. In accordance with the terms of the retroactive reinsurance agreement with XL Re Ltd., (See "REINSURANCE"), CCMC entered into a claims servicing contract with GAB Robins North America, Inc. (GAB Robins), dated July 15, 2001. All of the workers' compensation claims on business previously written by the Group are serviced out of the Ontario, California office of GAB Robins.

REINSURANCE

Pooling Agreement

A revised pooling agreement was approved by the California Department of Insurance (CDI) and Oregon Division of Insurance effective January 1, 2006. Under the terms of the agreement, the companies cede 100% of their direct business to the California Casualty Indemnity Exchange (Exchange). The agreement also includes a provision whereby personal lines insurance business is retroceded to, and assumed by, California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC), and California Casualty General Insurance Company of Oregon (CCGIC) according to their respective pooling percentages of 8%, 10% and 12%. The Exchange retains 70% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business are in run-off and are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC).

Assumed

The Company did not assume any reinsurance other than from the pooling agreement discussed previously.

Ceded

The Company entered into a retroactive reinsurance agreement with XL Re, LTD, Hamilton, Bermuda (XL Re), effective January 1, 2001. The purpose of the agreement was to cede 100% of the ultimate net loss paid or payable by the Company on workers' compensation and employer's liability losses for policies issued on or before December 31, 1998 by the Company and all other insurers through the Group pooling agreement. The maximum limit to be ceded to XL Re is $110 million with a sub-limit of $15 million for 1987 and prior injury dates. The placement slip entered into prior to the formal agreement calls for California Casualty Management Company to contract with GAB Robins, or an acceptable alternative third party administrator, for claims handling of the losses.

Pursuant to California Insurance Code Section 1011(c), the CDI approved the agreement on October 22, 2001.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the year ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 61,414,214	$	$ 61,414,214	
Cash and short-term investments	842,232		842,232	
Investment income due & accrued	482,085		482,085	
Premiums and agents' balances in course of collection	439,910		439,910	
Reinsurance recoverables	492,472		492,472	
Net deferred tax asset	136,868		136,868	
Receivable from parent, subsidiaries and affiliates	1,550,626		1,550,626	(1)
Aggregate write-ins for other than invested assets	129,000		129,000	
Total assets	$ 65,487,407	$ -	$ 65,487,407	

Liabilities, Surplus and Other Funds

Losses		$ 30,532,161	(2)
Reinsurance payable on paid losses and loss adjustment expenses		5,119,264	
Loss adjustment expenses		4,920,155	(2)
Other expenses		16,388	
Taxes, licenses and fees		3,605	
Unearned premiums		242,222	
Amounts withheld or retained by company for account of others		286,871	
Payable to parent, subsidiaries and affiliates		54	
Ceded retroactive reinsurance reserves		(34,771,805)	
Payable to third party administrator		538,530	
Total liabilities		6,887,445	
Aggregate write-in for special surplus funds	$ 11,295,604		
Common capital stock	2,600,000		
Gross paid-in and contributed surplus	26,800,000		
Unassigned funds	17,904,358		
Surplus as regards policyholders		58,599,962	
Total liabilities, surplus and other funds		$ 65,487,407	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 303,767
Deductions:		
Losses incurred	$ 4,534,668	
Loss expenses incurred	460,217	
Other underwriting expenses incurred	57,665	
Total underwriting deductions		5,052,550
Net underwriting loss		(4,748,783)
Investment Income		
Net investment income earned	$ 2,939,116	
Net realized capital losses	(18,143)	
Net investment gain		2,920,973
Other Income		
Gain from retroactive reinsurance	$ 5,200,000	
Total other income		5,200,000
Net income before federal income taxes		3,372,190
Federal income taxes incurred		765,818
Net income		$ 2,606,372

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 56,077,802
Net income	$ 2,606,372	
Change in deferred income tax	(420,190)	
Change in nonadmitted assets	335,978	
Change in surplus as regards policyholders for the year		2,522,160
Surplus as regards policyholders, December 31, 2006		$ 58,599,962

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Surplus as regards policyholders, December 31, 2003, per Examination			$ 57,909,101
	Gain in Surplus	Loss in Surplus	
Net income	$ 6,553,993	$	
Change in net deferred income tax		653,782	
Change in nonadmitted assets	790,650		
Dividends to stockholders		6,000,000	
Totals	$ 7,344,643	$ 6,653,782	
Net increase in surplus as regards policyholders			690,861
Surplus as regards policyholders, December 31, 2006, per Examination			$ 58,599,962

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Receivable from Parent, Subsidiaries and Affiliates

The intercompany pooling agreement requires settlements to be made within 90 days after each month end. During the review of the intercompany accounts, it was noted that not all settlements were made within the 90 day period. Management stated that if a pool member does not have the investment funds available to settle completely, the receivable or payable is carried until the funds are available. The Group tries to avoid selling securities to settle intercompany balances. It is recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Exchange's loss and loss adjustment expense reserves as of December 31, 2006 were found to be reasonably stated and have been accepted for purposes of this examination.

The Company was not in compliance with California Insurance Code (CIC) Section 11558 because its carried liability reserves at December 31, 2006 for the most recent three accident years were below the statutory minimum reserves required by CIC Section 11558. The deficiency was immaterial and no examination adjustment was made. It is recommended that the Company comply with CIC Section 11558.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 6): It is recommended that the Company's Board of Director's meeting minutes reflect the fact that the directors were informed of the receipt of the report of examination pursuant to California Insurance Code (CIC) Section 735.

Comments on Financial Statement Items – Receivable from Parent, Subsidiaries and Affiliates (Page 12): It is recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 12): It is recommended that the Company comply with CIC Section 11558.

Prior Report of Examination

Accounts and Records - Information System Controls (Page 9): It was recommended that the Company evaluate the recommendations made and make appropriate changes to strengthen controls over its information system. The recommendations from the previous examination have been implemented.

Payable to Parent, Subsidiaries and Affiliates (Page 13): It was recommended that the Company report pooled accounts and intercompany balances in accordance with Annual Statement instructions and settle them on a regular basis. Pooled accounts and intercompany balances are reported in accordance with the Annual Statement Instructions; however, not all intercompany balances are settled on a regular basis.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and California Casualty Management Company's employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

/S/

Ber Vang, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California